



Information Partners Can Use on:

HOW ANNUAL COST IS CALCULATED

New Medicare Prescription Drug Coverage

As of March 23, 2006

Medicare drug plans must cover prescription drugs in all prescribed categories and classes, but Medicare drug plans don't have to cover every drug. If you are helping someone with Medicare choose a Medicare drug plan, remember that if the drug they take isn't on their plan's formulary, a similar drug that is safe and effective should be available. The Medicare Prescription Drug Plan Finder is a tool at www.medicare.gov that helps people compare Medicare drug plans and provides an estimate of costs based on the information they provide. This tip sheet explains how the tool calculates annual cost for Medicare drug plans.

Annual Cost is based on 4 different periods of time during coverage

The annual cost is a sum calculated by adding the premium for a year and the amount a person with Medicare pays during different times throughout their coverage. Each plan is different. In 2006, more than half of plans have no deductible, and almost 25% of plans offer some type of coverage in the coverage gap ("donut hole").

Depending on the plan, these four periods may be:

- 1. Paying the deductible**—when a person pays the full drug cost for their drugs up to \$250.
- 2. Initial coverage period (ICP)**—when a person pays a mix of copayments or coinsurance depending on the drug and the plan. This period ends when the person meets their initial coverage limit (ICL).

TIP: The ICL is calculated based on the **full cost** (also called "negotiated price") of the drugs that a person gets, **not** the copayments or coinsurance paid during the ICP.

- 3. Coverage gap**—when a person pays the full drug cost after they reach the initial coverage limit until they spend \$3,600 out-of-pocket.

- 4. Catastrophic coverage**—when a person's total out-of-pocket drug costs have reached \$3,600.

More information about the different plan benefit structures is available in "The Plan Benefit Structures" tip sheet at www.cms.hhs.gov on the web.

Calculate the annual cost

When a person moves from one period in their coverage to the next, the price they pay for their drugs may change. The Medicare Prescription Drug Plan Finder has a "drug details" feature which will allow you to see how much each drug costs during the periods of coverage that apply to that plan.

Remember, plan costs and deductibles can vary. On the next page, there's a simple example that assumes the plan has a \$225 deductible. The example also assumes the following costs:

	Full Drug Cost	Deductible	ICP/Copay	Cost
Drug 1	\$75	See Full Drug Cost	\$10	See Full Drug Cost
Drug 2	\$75		\$15	
Drug 3	\$75		\$15	
Drug 4	\$150		\$25	
Total Costs	\$375		\$65	

Please note that the Medicare Prescription Drug Plan Finder calculates the annual cost beginning with the least expensive and ending with the most expensive drug.

STEP 1: Figure out Annual Premium			Person has paid...
Monthly Premium X 12 = ANNUAL PREMIUM	➡EXAMPLE➡	\$5 X 12 = \$60	\$60
STEP 2: Figure out costs during Deductible			+
Add Full Drug Costs until total hits or exceeds the plan's deductible	➡EXAMPLE➡	$\$75 + \$75 + \$75 =$ \$225 Deductible met in month 1 with first three drugs	\$225
STEP 3: Figure out costs during Initial Coverage Period (ICP)			+
Cost of Drugs after deductible is met in month 1	➡EXAMPLE➡	Drug 4 \$25	\$350
ICL / Monthly Total Drug Costs = # OF MONTHS BEFORE ICL IS MET		$\$2250 / \$375 =$ 6 MONTHS	
Monthly ICP Costs X # of Months in ICP = TOTAL ICP COSTS		$\$65 \times 5 =$ \$325 Person was in ICP for months 2-6. Coverage gap starts in month 7.	
STEP 4: Figure out costs during "Coverage Gap"			+
Total Monthly Costs X Months in Gap = COSTS IN GAP	➡EXAMPLE➡	$\$375 \times 6 =$ \$2250	\$2250
Note: If the total from step 2, 3, and 4 is greater than \$3600, the person will have catastrophic coverage in which they pay 5% of the total cost of their drugs.			
STEP 5: Figure out Total Annual Cost			=
Annual Premium + Deductible + ICP costs + Gap costs + Catastrophic costs + Non-formulary drug costs = TOTAL ANNUAL COST	➡EXAMPLE➡	$\$60 +$ $\$225 +$ $\$350 +$ $\$2250 +$ $\$0 +$ $\$0 =$ \$2885	\$2885

Troubleshooting Tips

If you have used the previous example to help you figure out the annual cost of a Medicare drug plan, and your answer is different from the Medicare Prescription Drug Plan Finder amount, the tips below should help you.

Remember, the Medicare Prescription Plan Finder calculates the annual cost beginning with the least expensive and ending with the most expensive drug.

■ Step 2:

If a prescription costs more than the balance of the deductible, the person pays either:

- (1) the balance of the deductible and the cost share, or
- (2) the full cost of the drug,

whichever is less.

■ Step 3:

When the cost of a drug causes a person to meet the ICL, the person is responsible only for the full copayment.

■ Step 5:

A person is responsible for 100% of the cost of non-formulary drugs. This amount doesn't count toward the deductible, coverage limit, total out-of-pocket costs, or catastrophic coverage.